MetroPCS Communications Inc. (PCS), the wireless carrier looking to expand, may struggle to become a viable replacement for T-Mobile USA as AT&T Inc. (T) tries to win government approval to buy the company from Deutsche Telekom AG.

MetroPCS has less than one-third the customers of T-Mobile, the fourth-largest U.S. wireless carrier, and covers less than half the U.S. population. The company would need to spend as much as $10 billion for wireless spectrum and customers to compete with Verizon Wireless, Sprint Nextel Corp. (S) and AT&T, said Michael Mahoney, senior managing director and portfolio manager at San Francisco-based Falcon Point Capital LLC. That is probably beyond its capability, he said.

?They are a very niche player right now, with a specific brand image,? Mahoney said in an interview. ?They need to be more than that to be a credible nationwide player.?

MetroPCS has emerged as the frontrunner to buy assets from AT&T and T-Mobile USA as those companies seek to complete their merger, people familiar with the matter said this month. AT&T is trying to sell assets to address regulatory concerns that a reduction in nationwide providers to three from four would undermine competition, after the U.S. Justice Department sued to block the merger in August.

MetroPCS, based in Richardson, Texas, fell 4.9 percent to $8.50 at the close in New York. The stock has lost 33 percent this year. AT&T, based in Dallas, fell 1.4 percent to $29.31 and is little changed this year.

Drew Crowell, a MetroPCS spokesman, declined to comment on potential transactions. The company reports earnings tomorrow.

National Competitor?

To compete with the largest three operators, any company would need a critical mass of customers and wireless spectrum. Wireless licenses are distributed by the federal government and allow operators to offer service in specific areas.

MetroPCS had 9.1 million wireless subscribers at the end of June, compared with 33.6 million subscribers for T-Mobile. Verizon Wireless, AT&T and Sprint had 107.7 million, 100.7 million and 53.3 million, respectively, at the end of September.

MetroPCS probably needs 25 million users to compete with the industry giants, Mahoney said. That means it has to acquire the equivalent of about half the subscribers at T-Mobile, which AT&T has agreed to buy from Deutsche Telekom for $39 billion.

MetroPCS had $2.16 billion in cash and short-term investments at the end of June. It?s unlikely to spend more than $4 billion, though it could also use stock or debt for acquisitions, Michael Nelson, an analyst with Mizuho Securities USA Inc. in New York, said in an interview.
?No-Brainer?

The company would also need more wireless licenses to be a national player, Mahoney said. MetroPCS currently has rights to offer service in regions with 146 million people, about 46 percent of the population, though it hasn?t built networks in all those places. It doesn?t operate in many smaller towns and has limited service in cities such as Chicago and Seattle.

To compete nationally, MetroPCS probably has to add spectrum to cover at least two-thirds of the population, or more than 200 million people, Mahoney said. The costs for the licenses and network to get there may exceed the company?s current resources, he said.

The company has options to expand beyond the purchase of AT&T-T-Mobile assets. The company recently said it may buy spectrum from Clearwire Corp. (CLWR), which is looking to raise funds to finance a network overhaul.

Another possibility is merging with Leap Wireless International Inc. (LEAP), a similar pay-as-you-go service provider based in San Diego, Timothy Horan, an analyst at Oppenheimer & Co., said in an interview. Leap, which had 5.75 million customers at the end of the second quarter, operates in regions that would complement MetroPCS?s territory, he said.

?Leap-MetroPCS is a no-brainer,? Mahoney said. ?It completely makes sense.?
Failed Talks

Leap?s stock has tumbled in the past four years and its market value has dropped to less than $600 million. The company also had $3.25 billion in bonds and loans at the end of June.

The two companies have considered a combination in the past and haven?t been able to reach an agreement. They discussed a merger in 2007 and failed to agree on terms.

Rather than spend money to acquire customers or wireless licenses in new territories, MetroPCS is more likely to expand in current regions, said Kevin Smithen, an analyst at Macquarie Securities USA Inc. in New York. Adding spectrum in such areas would let MetroPCS offer more subscribers faster mobile Web access, reducing customer turnover and boosting organic growth, he said.

?They need the spectrum immediately,? Smithen said in an interview. In the second quarter,

MetroPCS?s monthly churn, or customer losses, reached 3.9 percent.
Quality Suffers

The company is battling a spectrum crunch as more customers buy smartphones that use more data, which may have hurt service quality, said Walter Piecyk, an analyst at BTIG LLC in New York. While MetroPCS ranks high among other prepaid service providers on cost of service, it?s among the lowest in performance and reliability, according to J.D. Power & Associates.

?When they buy the spectrum, a lot of concerns over their growth are going to be resolved,? Piecyk said in an interview. ?Maybe they can be more aggressive on price to grow their base even faster.?

MetroPCS might buy spectrum and customers in San Francisco, Dallas, Jacksonville, Florida, and Bakersfield, California, where the combined AT&T-T-Mobile would hold more than 50 percent of the market, Nelson said. MetroPCS already operates in the four metro areas, and is building out a 4G wireless network to offer faster services for smartphones.

MetroPCS Chief Executive Officer Roger Linquist said during the company?s second-quarter call that it?s interested in acquiring spectrum, though they will be ?disciplined and opportunistic? in doing so.

Strategic Fit?

Besides the company?s financial limitations, analysts such as Nelson are skeptical that MetroPCS even wants to expand geographically on a large scale. Moving into less populated regions would clash with the existing strategy, he said.

?MetroPCS management has repeatedly stated in the past their desire to focus on large urban markets,? Nelson said. ?I do not think it?s their intention to become a nationwide provider.?

Sincerely,
Mr. Maneesh Pangasa
3562 South 18th Avenue
Yuma AZ 85365-3937
(928) 446-8999